

STATEMENT OF CHAIRMAN MICHAEL BILIRAKIS
SUBCOMMITTEE ON HEALTH AND THE ENVIRONMENT
MEDICARE MANAGED CARE: PAYMENT AND RELATED ISSUES
FEBRUARY 27, 1997

TODAY'S HEARING BEGINS OUR SUBCOMMITTEE'S IN-DEPTH ANALYSIS OF THE ADMINISTRATION'S MEDICARE MANAGED CARE PROPOSALS. IT WILL BE THE FIRST OF MANY HEARINGS ON THE ADMINISTRATION'S BUDGET INITIATIVES IN THIS AREA. TODAY'S HEARING WILL PRIMARILY EXAMINE **MEDICARE'S PRESENT HMO RATE-SETTING POLICIES, AND THE ADMINISTRATION'S PROPOSALS TO MODIFY THESE METHODS.**

CURRENTLY, **MEDICARE PAYMENT RATES TO HMOs ARE CALCULATED USING A PAYMENT METHODOLOGY CALLED THE ADJUSTED AVERAGE PER CAPITA COST (AAPCC).** THAT'S A "MOUTH FULL" -- AND AS WE KNOW, THE AAPCC IS A COMPLICATED RATE SETTING METHOD.

IN ITS BUDGET, THE ADMINISTRATION CLAIMS THAT IT IS ADDRESSING THE FLAWS IN THE CURRENT AAPCC RATE METHODOLOGY. AT THE SAME TIME, THESE PROPOSALS **GENERATE ONE-THIRD OF THE PRESIDENT'S MEDICARE SAVINGS FROM REDUCTIONS IN HMO PAYMENTS, EVEN THOUGH HMO ENROLLEES ARE ONLY 12 PERCENT OF CURRENT MEDICARE BENEFICIARIES.** IT ALSO INVOLVES A SERIES OF POLICY CHANGES THAT ARE SO COMPLICATED AND CONVOLUTED, THAT I HAVE BEEN TOLD THAT ONLY TWO PEOPLE IN THE ADMINISTRATION CAN ADEQUATELY EXPLAIN THEM. HOPEFULLY, BRUCE FRIED, OUR FIRST WITNESS, IS ONE OF THEM.

SO FAR, I HAVE IDENTIFIED AT LEAST 8 POLICY ADJUSTMENTS THAT ARE APPLIED SIMULTANEOUSLY TO THE AAPCC IN THE ADMINISTRATION'S PROPOSAL. THESE FACTORS ARE: (1) DE-LINKING THE AAPCC FROM MEDICARE FEE-FOR-SERVICE PAYMENTS; (2) FLOORS AND CEILINGS ON THE AAPCC RATES FOR CERTAIN COUNTIES ; (3) A HOLD HARMLESS AND MINIMUM UPDATE FACTOR; (4) BLENDED PAYMENT RATES; (5) A GME, IME, DSH CARVE OUT; (6) A BUDGET NEUTRALITY ADJUSTMENT; (7) A 5.3% REDUCTION DUE TO FAVORABLE SELECTION; AND (8) AN UPDATE FACTOR TIED TO OVERALL MEDICARE GROWTH. ALTHOUGH IT IS HARD TO BELIEVE, THIS

AAPCC FORMULA MAKES LAST YEAR'S MEDICAID BLOCK GRANT FORMULA LOOK ELEMENTARY.

WHAT WE MUST NOT LOSE SIGHT OF, IS THAT FOR FIVE MILLION MEDICARE BENEFICIARIES, MEDICARE MANAGED CARE PLANS HAVE PROVIDED A SUPERIOR HEALTH CARE DELIVERY SYSTEM WITHOUT THE NEED FOR MEDIGAP INSURANCE. IN ADDITION, MANAGED CARE PLANS HAVE PROVIDED MILLIONS OF ELDERLY WITH PRESCRIPTION DRUG COVERAGE, DENTAL, VISION BENEFITS, AND PREVENTIVE BENEFITS, LIKE ROUTINE PHYSICALS AND IMMUNIZATIONS. THIS IS A PROGRAM WHICH IS **GROWING AT MORE THAN 30% PER YEAR BECAUSE IT IS EXTREMELY ATTRACTIVE TO OUR MEDICARE POPULATION.** IT IS CLEARLY THE WAVE OF THE FUTURE FOR MEDICARE, AND WE MUST BE EXTREMELY CAREFUL THAT WE DO NOT ADOPT LEGISLATIVE PROPOSALS THAT DISRUPTS THE SYSTEM. THANK YOU.

